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LETTER DATED 30 MAY 1997 FROM THE CHAIRMAN OF THE SECURITY
COUNCIL COMMITTEE ESTABLISHED BY RESOLUTION 661 (1990)
CONCERNING THE SITUATION BETWEEN IRAQ AND KUWAIT ADDRESSED
TO THE PRESIDENT OF THE SECURITY COUNCIL

I have the honour to transmit herewith the report of the Security Council Committee established by resolution 661 (1990) concerning the situation between Iraq and Kuwait pursuant to paragraph 12 of Council resolution 986 (1995). The report, adopted by the Committee on 30 May 1997 prior to the end of the initial 180-day period on the implementation of the arrangements in paragraphs 1, 2, 6, 8, 9 and 10 of resolution 986 (1995), covers mainly the Committee's related activities since the submission of its first report on 11 March 1997 (S/1997/213, annex).

(Signed) António MONTEIRO
Chairman
Security Council Committee established
by resolution 661 (1990) concerning the
situation between Iraq and Kuwait

Annex

Report of the Security Council Committee established
by resolution 661 (1990) concerning the situation
between Iraq and Kuwait on the implementation of the
arrangements in paragraphs 1, 2, 6, 8, 9 and 10 of
resolution 986 (1995)

I. INTRODUCTION

1. The present report is submitted to the Security Council pursuant to paragraph 12 of resolution 986 (1995) of 14 April 1995, in which the Council requested the Committee established by resolution 661 (1990) of 6 August 1990 to report to it prior to the end of the initial 180-day period on the implementation of the arrangements in paragraphs 1, 2, 6, 8, 9 and 10 of the resolution. The initial 180-day period after paragraph 1 of the resolution came into force ends on 7 June 1997.

2. The operations under resolution 986 (1995) are complex and unprecedented in nature. While the process for approval of oil contracts continues to proceed smoothly with excellent cooperation among the overseers, national oil purchasers and the Iraqi State Oil Marketing Organization, the processing of contracts for humanitarian supplies has experienced some practical difficulties, especially at the beginning of the process. Many of those difficulties were effectively addressed by the Committee and its secretariat, while certain other issues presenting problems are in the process of being resolved. Since the submission by the Committee of its first 90-day report pursuant to paragraph 12 of resolution 986 (1995) on 11 March 1997 (S/1997/213, annex), humanitarian supplies have gradually started arriving in Iraq and the urgent humanitarian needs of the Iraqi civilian population are being met as envisaged in the resolution.

II. EXPORT OF OIL FROM IRAQ

3. As at 30 May, pursuant to paragraph 2 of the procedures of the Security Council Committee, 217 national oil purchasers from 39 countries who are authorized to communicate directly with the overseers have been nominated. As at 30 May, a total of 51 contracts have been submitted for review by the overseers and all of them have been approved. Thirty-four of these were term contracts and 17 were spot contracts. The total quantity of oil approved for export under these contracts amounts to approximately 121 million barrels for the 180 days at an estimated value of \$2.16 billion. In view of the volatility of the market, the oil overseers have monitored the price fluctuations together with the contract volumes remaining for the second 90-day period, as well as the schedule and volume of individual liftings, with the purpose of maximizing the revenue for oil delivered through 7 June 1997 without exceeding the 180-day revenue objective of \$2.14 billion, including the pipeline fee.

4. The overseers have continued to work with the Iraqi State Oil Marketing Organization to address changes in prices, volumes, liftings and destinations.

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In the second 90 days, the overseers recommended to the Committee three sets of updated pricing mechanisms for loadings in March, April and May submitted by the Iraqi State Oil Marketing Organization pursuant to paragraphs 5 and 6 of the procedures of the Committee. During the second 90 days, all new contracts submitted employed the pricing mechanisms approved by the Committee.

5. Some 114 loadings, totalling 119.5 million barrels, with an estimated value of \$2.16 billion, have been completed. In accordance with paragraph 6 of resolution 986 (1995), about 57 per cent of Iraqi oil has been shipped through the Kirkuk-Yumurtalik pipeline. The letters of credit opened for each of the loadings were confirmed by the overseers upon compliance with the terms and conditions of the contracts approved and consultations with parties concerned.

6. In the first 90 days, 51.6 million barrels were lifted, 0.7 million barrels less than the total of all approved term and spot contracts for that period. Three cargoes, totalling 2.5 million barrels, were scheduled for the last week of the first 90 days, but slipped into the second 90-day period as a result of operational problems. The total revenue generated from the liftings was \$1.034 billion. The shortfall of \$37 million was carried forward to the second 90 days pursuant to the proposals of the overseers approved by the Committee on 13 March concerning contract administration and revenue management.

7. For the second 90 days, 65 loadings, totalling 67.9 million barrels at an estimated value of \$1.116 billion, have been completed. Three of these liftings were delayed loadings from the first 90 days.

8. Pursuant to paragraph 14 of the procedures of the Committee, the overseers have been reporting to it once a week on the contracts considered by them relating to the sale of petroleum originating in Iraq, including the cumulative quantity and approximate value of petroleum authorized for export. So far, 23 such reports have been submitted to the Committee.

9. The United Nations independent inspection agents (Saybolt) have played an important role in facilitating the implementation of resolution 986 (1995) by monitoring the export of oil from Iraq as required under paragraph 6 of the resolution. A representative of Saybolt briefed the Committee at its 156th meeting, on 20 May, on the oil monitoring activities at the Mina al-Bakr oil terminal and the Zakho metering station, and at the Ceyhan oil terminal in Turkey. The representative described the oil monitoring operation as effective and smooth and added that the independent inspection agents had enjoyed the full cooperation of the Iraqi and Turkish authorities. The Committee appreciated the information provided by Saybolt and requested that such briefings be held on a regular basis.

III. EXPORT OF HUMANITARIAN SUPPLIES TO IRAQ

10. The process for approval of applications for supplying humanitarian goods to Iraq has been one of the most complex tasks facing the Security Council Committee and its secretariat. The Committee is concerned at the slow pace of contract approval, which has been caused by a number of factors, including the initial insufficiency of funds in the United Nations Iraq account and

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deficiencies in submitted applications. Committee members who placed holds on contracts indicated that a major reason was that the applications were incomplete or technically inconsistent with the approved distribution plan. The Committee is working with its secretariat to eliminate such technical deficiencies in order to avoid delay in the approval of contracts.

11. At the request of the Committee and with a view to facilitating the submission of complete applications to send humanitarian supplies to Iraq under resolution 986 (1995), an orientation meeting was organized by the secretariat on 21 March. The purpose of the meeting, which was attended by over 70 representatives from Member States and international organizations, was to familiarize participants with the detailed procedures for implementation of the resolution. To ensure that applications and contracts for humanitarian supplies are properly completed, a second note verbale from the secretariat was circulated to all Member States and international organizations on 15 May, along with revised guidelines on the completion of application forms and a sample of a completed form.

12. A number of formal and informal meetings at the expert level have been held by the Committee with a view to considering steps to facilitate a more expeditious processing of applications for humanitarian supplies to Iraq. Further to the Committee's points of understanding adopted on 5 March to free funds allocated to applications that are placed on hold or blocked so that those funds may be used for further applications that follow in sequence, the Committee on 11 April approved a priority list of certain items under resolution 986 (1995) drawn up with the assistance of the Department of Humanitarian Affairs of the Secretariat and WHO. Applications thus identified have been duly dealt with by the Committee on a priority basis.

13. On 1 April, the Committee adopted additional points of understanding, allowing it to process applications based upon anticipated revenues as determined by the issuing of an irrevocable letter of credit for oil shipments and confirmation of lifting of oil cargoes. This was on the understanding that the issuing of letters of credit for contracts for humanitarian goods would continue to be based on the availability of funds in the Iraq account.

14. At its 155th meeting, held on 14 May, the Committee adopted further points of understanding: its secretariat will circulate for the consideration of the Committee all contracts that meet the requirements of the procedures of the Committee; incomplete applications will not be circulated until clarification is obtained by the secretariat from the applicant State and the Permanent Mission of Iraq; the secretariat will process all incoming applications under resolution 986 (1995) if possible within two business days; and if a contract is put on hold, the delegations concerned should indicate to the secretariat the specific reasons in order to enable the matter to be resolved as quickly as possible. The Committee was of the view that the secretariat should obtain additional resources to support processing as necessary. The new measures have contributed to a more expeditious processing of applications.

15. As at 30 May, the secretariat has received 630 applications, 24 of which have subsequently been cancelled, and 574 have been circulated to Committee members for action. Of these, 331 have been approved, totalling approximately

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\$816 million, and 191 have been placed on hold. Of the remaining 52, 14 have been blocked and 38 are awaiting decisions of the Committee since the time limit within which the Committee is expected to decide has not elapsed (see figs. 1 and 2).

Figure 1. Value of applications received by category, as at 30 May 1997

(Millions of United States dollars)

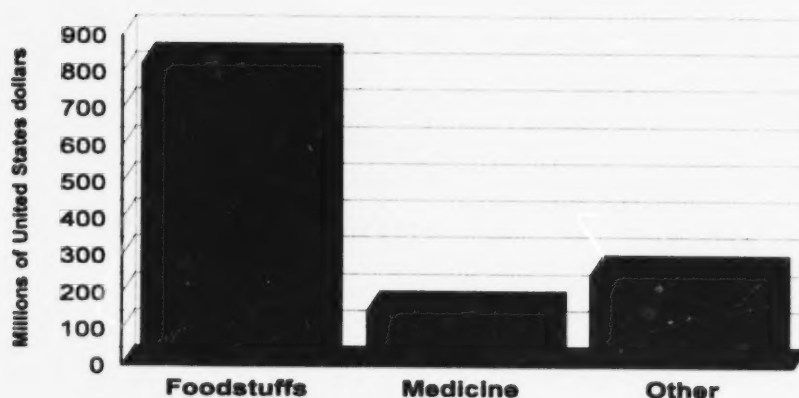
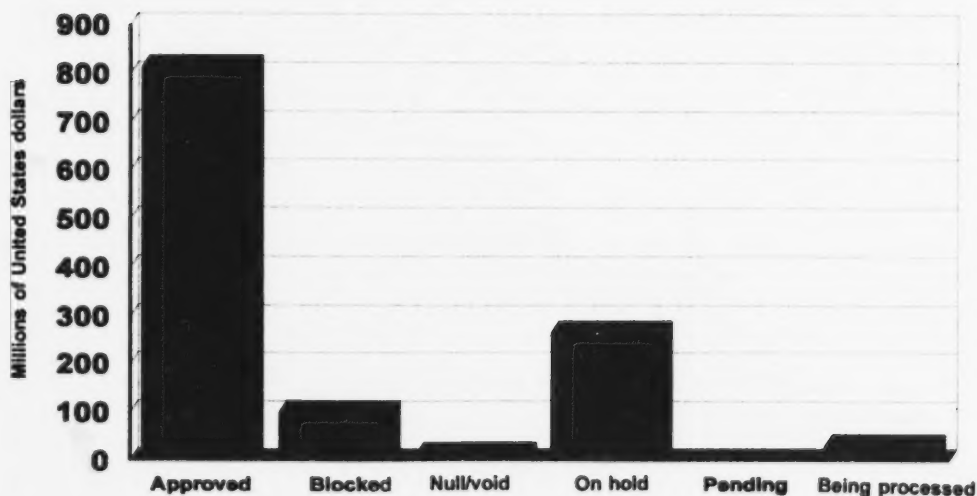


Figure 2. Status of applications, as at 30 May 1997

(Millions of United States dollars)



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16. The arrival of the goods is monitored by the United Nations independent inspection agents (Lloyd's Register) in accordance with paragraph 36 of the procedures of the Committee. A representative of Lloyd's Register addressed the Committee at its 156th meeting, on 20 May, and provided an overview of the activities of the independent inspection agents related to the authentication of the arrival in Iraq of humanitarian supplies under resolution 986 (1995). Lloyd's Register noted that cooperation with Iraqi authorities had been excellent and mutual respect had been obtained between their independent inspection agents and officials from the Iraqi Ministry of Trade and customs authorities. As at 30 May, 44 consignments of humanitarian supplies have been confirmed as having arrived in Iraq in total or in partial shipments.

IV. MATTERS RELATING TO THE KIRKUK-YUMURTALIK PIPELINE

17. As mentioned in the Committee's previous report (S/1996/213, annex), pursuant to paragraph 2 of resolution 986 (1995), in a letter dated 14 January 1997, Turkey requested the Committee's approval of the transfer of \$46,286,616.44, representing the oil transportation fees due to Turkey during the first 90 days of Iraq's oil exportation under the resolution, as agreed upon between the two countries. As suggested by the Committee, on 27 March Turkey submitted an amendment to the contract between the Iraqi State Oil Marketing Organization and the Turkish Petroleum Refineries Corporation. In view of the above, on 16 April, the Committee approved the transfer of the pipeline fees as requested, on the understanding that the actual transfer would take place only after proceeds from the sales of oil to cover the above fees had been deposited in the Iraq account and the deductions for the Compensation Fund had been made.

18. The Committee received from Turkey two requests pursuant to paragraph 9 of resolution 986 (1995) to supply parts and equipment for the repair and maintenance of the Kirkuk-Yumurtalik pipeline system in Iraq. The first related to immediate repair work to the pipeline and the second referred to the medium- and long-term safety of the pipeline. Following the Committee's approval in principle of the first request, on 2 April Turkey submitted a detailed export contract on the matter as suggested by the Committee. The contract is still pending before the Committee. With regard to the second request, the situation remains unchanged since the Committee's last report to the Council, namely, the matter continues to be deferred until such time as the Committee can assess the need for further supplies after the initial repair work has been completed.

V. OBSERVATIONS

19. The Committee continues to enjoy a good working relationship and cooperation with the representatives of Member States, the Government of Iraq, the secretariat, the overseers and the independent inspection agents. The Committee appreciates the cooperation of all concerned.

20. While the export of oil has proceeded well, there have been delays in the supply of humanitarian goods. Progress has been made, however, with regard to the processing of applications for humanitarian supplies to Iraq under resolution 986 (1995). The Committee will continue to address remaining issues

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with the goal of resolving them expeditiously. In that context, the Committee would welcome amendments by Iraq to the categorized list of goods to reflect the updated humanitarian needs of the Iraqi population.

21. In the event that the Security Council decides to renew the present arrangements for the implementation of resolution 986 (1995), the Committee is confident that the new measures it has adopted will enable a smoother process of implementation of resolution 986 (1995).
